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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 003150

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SUBJECT: BRAZIL CORRUPTION SCANDAL UPDATE, WEEK OF 28

NOVEMBER - 02 DECEMBER 2005: DIRCEU FALLS

REF: BRASILIA 03103 AND PREVIOUS

Classified By: Classified By: POLITICAL COUNSELOR DENNIS HEARNE. REASON
S: 1.4 (B) (D).

11. (C) Summary: On the evening of 30 November the Brazilian congress's Chamber of Deputies (lower house) voted to "cassar" (ban from office or impeach) congressman Jose Dirceu -- until a few months ago, arguably the most powerful minister in President Lula da Silva's government and the main leader in the PT party, but recently a central figure in the ongoing scandals that have rocked Brazil (ref). Dirceu was impeached on charges of breaking "congressional decorum" on specific items related to the scandal allegations, but his fall is viewed here as a broader acknowledgment by the political class that the financial improprieties at the core of the scandals are real, important in scope, and ultimately the responsibility of senior figures beyond those already implicated and sanctioned publicly. Hence Dirceu's fate cannot be considered good news for Lula, though Dirceu's fall may temporarily diminish pressure on the GOB through the year's end. End summary.

DIRCEU FALLS

12. (U) Until a few months ago Lula's powerful Chief of Staff and once the most influential figure in the cabinet, Jose Dirceu was formally ousted by his congressional colleagues late on 30 November from his seat in the Chamber of Deputies, and also lost his political rights until 2016. A majority of 293 deputies -- 36 more than the necessary -- in the 513-seat Brazilian lower house voted to expel Dirceu from congress, indicating their acceptance of a report by the chamber's ethics committee charging his culpability in the illicit financing and vote-buying scandals that have rocked the Lula administration (ref). The vote calling for Dirceu's "cassacao" (a formal ousting process akin to banning or impeachment) was the denouement of Dirceu's story in the crisis, which started six months ago, when a former member of the governing coalition, deputy Roberto Jefferson (himself impeached several weeks ago, see refs), accused the Worker's Party of bribing lawmakers, and implicated Dirceu as the corruption scheme's mastermind. Dirceu's last in a series of appeals to the Supreme Court was decided just hours before the impeachment vote took place, with the Supreme Court Justices allowing the vote on Dirceu's impeachment, provided portions of the report judged to be unconstitutional on procedural grounds were deleted. The 42-page report included circumstantial evidence that links Dirceu to the PT's corruption schemes and supports the assertion that "(Dirceu) altered the regular legislative process by collecting money from the Banco Rural and Banco de Minas Gerais, together with Mr. Delubio Soares (former PT treasurer) and by Mr. Marcos Valerio de Sousa (the private sector money man at the center of the scandals)... and used that money to buy congressmen's votes in favor of the governing coalition."

13. (U) At 7:30 p.m., the chamber started impeachment procedures by hearing a strong oral presentation of the charges by the ethics committee rapporteur, Deputy Julio Delgado, followed by Jose Dirceu, who made an emotional speech in his own defense. Dirceu denied all the accusations presented in the report, claiming that there were no evidence to support them. Dirceu defended his record of public service and argued he was a scapegoat and victim of vendettas by those who resented his political power and arrogant personal style. He pleaded not to be ousted from the Chamber: "I reached the point where my situation became an agony, a decapitation, a hell, a political execution... I cannot be impeached because I was the "all-mighty" (in the government), because I did not answer telephone calls or schedule meetings. I cannot be impeached because of my personality. It is not fair, my hands are clean." It was past midnight when the chamber President (Speaker of the House equivalent), Aldo Rebelo, announced the final result and declared Dirceu ousted..

14. (SBU) Dirceu's fall from the apex of power he enjoyed in the early months of Lula's government began in February 2004, when his friend and senior advisor Waldomiro Diniz was caught soliciting bribes from a numbers racketeer, apparently intending to funnel the cash into PT slush funds. The governing coalition was able to put off further investigation of the case for over a year and Dirceu began to regain some

of his previous influence. However, in early June 2005 he was forced to step down as Lula's chief minister after former deputy Roberto Jefferson alleged to the press and to Congress that the Worker's Party was running illicit campaign financing operations and a bribery scheme in exchange for lawmakers' support, and that Dirceu was not only aware of the scheme, but was the mastermind behind it. Jefferson's allegations prompted the congress to open investigations on the bribes-for-votes scheme and other allegations, with three investigative committees (CPIs) examining a range of issues including use of state funds in illegal actions, money laundering, bribery charges and corruption involving bingo houses and contracting practices under PT municipal governments. After resigning, Dirceu returned to his seat in the Chamber of Deputies, from where he maneuvered tirelessly against his impeachment. Ultimately the efforts were fruitless, as he became the second deputy to be judged and ousted, following Roberto Jefferson. Throughout the process, Dirceu made three different appeals to the Brazilian Supreme Court, a tactic which threatened in its latter stages to spark an institutional crisis between the legislative and the judicial branches.

CONGRESSIONAL COMMITTEES: NEXT MOVES

15. (U) With the conclusion of Dirceu's case, the Ethics Committee in the chamber is expected to move ahead on 13 other cases against implicated congressmen, and will likely try to conclude these processes by year's end. Dirceu's impeachment may well pave the way for faster handling of the other cases, which include both PT and allied party congressmen and in which there is substantial material evidence in some instances. Osmar Serraglio, rapporteur of the CPI on the Postal Service -- which is charged with investigating use of state funds in the PT's illicit finances -- said his committee will also release a report on related bribery operations involving congressmen, in an effort to shore up a gap left by the demise earlier this month of a separate and largely ineffective CPI on vote buying. The second remaining CPI, which covers corruption in bingo gaming and municipal governments under the PT, continued its examination of allegations relating to finance minister Palocci's tenure as mayor of Riberao Preto, Sao Paulo, and the murders of PT mayors linked to suspected corruption in Campinas and Santo Andre, Sao Paulo state.

16. (C) Comment. Dirceu's fall is a watershed. Beyond the specific charges in the report on which Dirceu's impeachment was founded, there has been an ongoing and powerful suspicion here that Dirceu's guilt is broader, that he was in fact the mastermind, or at the very least a knowledgeable and complicit observer, in the PT's network of illicit financial activities, both in government and in the years leading up to Lula's victory, when proceeds from kickbacks from PT-led municipalities apparently flowed into party war chests, fueling campaigns and embroiling some PT mayors in nefarious circumstances that literally led to murder in the cases of Santo Andre and Campinas, and that continue to haunt Palocci. We have tended to share that view of Dirceu's probable culpability. Dirceu was, for years, the single most powerful figure within the PT as the party's president, he crafted the campaign image-remake of Lula that led to his presidential victory, and he was the most important cabinet minister in the early years of the administration. It strains credulity that he would not have been involved in the large-scale, illicit financial machinations that are at the core of the current scandals. In our assessment, it fits with Dirceu's personal history of devotion to both the PT and his own ambition -- a history that includes exile, training in Cuba as a guerrilla, and years of clandestine life under assumed names in Brazil -- that he would view dubious means as justified by his ends. Indeed, the schemes of which he now stands accused were set in play to win and consolidate political power for the PT, rather than fuel graft in a traditional sense. We see no indication that an angry or embittered Dirceu will now implicate Lula in wrongdoing, as that would undercut Dirceu's assertions of his own innocence (he must still be wary about criminal indictments, though those seem unlikely), and in the end, Dirceu is probably still too much of a good soldier to ruin his former chief and further damage his party. Dirceu recently told Embassy officers that he intends to vanish for a time from Brazil's political scene, to work on a book and travel to the United States in early 2006, where he will recharge his batteries, learn some English and visit a country that is largely alien to him. But we are certain that, even with his right to run for office lost until 2016, Dirceu will remain an extremely influential figure in the PT and Brazilian left.

17. (C) Comment continued. The Lula government, for its part, expended virtually no energy to defend its former high priest in his final trial before the congress, leaving him in the end to his fate. Lula must now hope that Dirceu's sacrifice may be sufficient to diminish pressure from the ongoing investigations, at least through the end of the year. But it also can be argued that the condemnation of Dirceu represents the strongest statement yet that the body politic and public

in Brazil believe that the corruption schemes revealed over the past months are real, that their scope is vast, and that senior persons in the government and PT party beyond the former party treasurer, secretary general and others already thrown from the ship during investigations bear responsibility. Despite some temporary relief that last night's vote may offer, that cannot be comforting news for Lula.

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